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VIETNAM

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¶1. (SBU) SUMMARY. Domestic and foreign invested garment manufacturers lined up to share tales of market "re-balancing" with USDOC Assistant Secretary for Import Administration David Spooner. Garment exports remain far and away the largest component of our bilateral trade and producers say the overall volume of exports from Vietnam to the United States looks set to grow by 40 percent this year to over 4 billion USD. However, production is in the process of shifting from domestically-owned firms to foreign-invested firms that can quickly move orders to factories in unaffected countries in the event of an antidumping order against Vietnam. To minimize the chances of an order, Vietnam Textile and Apparel Association (VITAS) increasingly cooperates with the Government of Vietnam (GVN) to maintain export growth at modest levels, and (at the urging of U.S. retailers) producers have increasingly sourced production inputs such as fiber, thread and fabric from market economies. End Summary.

The Most Popular Man in HCMC

¶2. (SBU) Textile and apparel industry leaders turned out in droves during Assistant Secretary Spooner's September 24-25 fact finding tour to Ho Chi Minh City (HCMC) in order to inform the Import Administration's review of Vietnam's apparel export data for the six months ending September 11. Over one hundred industry players turned up at the VITAS-organized forum to comment on the effects of the Vietnam apparel export monitoring program and ask questions about the process. During an American Chamber of Commerce (AmCham) roundtable with foreign invested enterprises (FIE) and a Consulate-sponsored domestic producers' roundtable, insiders offered their insights in an attempt to obviate any potential finding of price discrimination. Factory visits to Viet Tien and Thanh Cong provided additional insights into industry economics.

¶3. (SBU) Careful not to hint at possible outcomes, Assistant Secretary Spooner told audiences they likely could expect an

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announcement late in October or early November. He walked listeners through the motivation and methodology of the monitoring process and noted that the USG is sensitive to perceptions of the program and concerned about negative responses. Spooner promised that the USG would continue consult

with the GVN and industry.

The Rebalancing Act

¶4. (SBU) Industry experts said that exports from Vietnam to the United States look set to hit $4 billion in USD in 2007, an increase of 40 percent if trends continue. However, uncertainty obscures the decision making process for buyers hoping to source additional product from Vietnam -- 'however small the chance, how could I explain to my shareholders why I would risk an anti-dumping order in Vietnam?' one U.S. retailer asked Assistant Secretary Spooner. Buyers are mitigating this risk by ordering from multinational companies with production facilities in Vietnam as well as in countries unaffected by a potential order. Locally-owned industry is losing out -- Vietnam's second largest domestic apparel production company reported a 30 percent drop in U.S. orders from the first nine months of 2006 to 2007.

¶4. (SBU) Large companies have been able to rebalance their export portfolio, concentrating on markets in the European Union and Japan. Multinational buyers in particular have been adept at changing the mix of their international production, shifting Vietnam's production to retailers in Europe. The largest domestic garment producer noted that its exports to the United States dropped from 36 percent (of the company's total exports) in 2005 to 34 percent in 2006 then 33 percent the first seven months of 2007. In contrast, exports to the EU have risen from 13 percent in 2005 to 18 percent in 2006, then to 22 percent in the first seven months of 2007.

Deferring Decisions

¶5. (SBU) Some major companies cited uncertainty created by the monitoring program as a reason for putting off their strategic decisions, including whether to source and invest in Vietnam. One AmCham member said some of its major vendors had considered investing in production facilities in Vietnam prior to the monitoring program, but these plans are now on hold. Domestic industry echoed these stories with at least one company noting that its increased investment (in anticipation of additional

market access to the United States) has proven to be a liability. Despite a widely acknowledged rapid increase in disposable income, companies aren't turning to the domestic market. One representative explained that Vietnam competes with China on quality rather than price, so existing production is not well-positioned to gain domestic market share in Vietnam.

Government and Industry Responding Together

¶6. (SBU) In order to counter perceptions that the monitoring program makes Vietnam an unreliable source, Vietnamese industry and trade officials have worked together to take action. Earlier in September, the Ministry of Industry and Trade (MoIT) announced it will act to prevent illegal transshipment and to regulate textile and garment export growth "in accordance with international regulations." MoIT ordered a halt to temporary import and re-export, transshipment and sales of finished textile and garment products through Vietnam to the United States. The GVN also announced it would improve coordination among the General Department of Customs, Vietnam Chamber of Commerce and Industry, VITAS and MoIT in order to monitor exports (for comparison with U.S. data) and strengthen the control of Certificate of Origin issuance.

Comment:

¶7. (SBU) Assistant Secretary Spooner was warmly received by a broad range of industry players eager to make their case. Aside from reports that U.S. buyers have been actively encouraging factories in Vietnam to source from market economies, nothing in industry comments, explanations or pleas was new (reftel). It is clear that the perceived threat of the monitoring program has already led to significant changes for the industry in Vietnam.

Familiar complaints about the availability of land, shortage of skilled and unskilled labor and inflation place the apparel industry firmly in the category of Vietnamese sectors already being reshaped by Vietnam's accession to the WTO. Because poor infrastructure and high transportation costs limit factory relocation from the HCMC region, upward price pressures are likely to continue to drive up the cost of production in Vietnam. End Comment.

¶10. This cable was cleared by Assistant Secretary Spooner and coordinated with Embassy Hanoi.
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